

CEU Business School



BUSI 5601 Financial Management (3 credits) 2017 Summer Semester

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| Instructor: | Joy Chan (See last page for bio sketch) |
| Class meets: | See MSc ITM schedule |
| Classroom: | to be confirmed |
| Office: | 507 |
| Tel: | 887-5012 |
| E-mail: | adj_chanj@business.ceu.edu |
| Office hours: | To be advised or by appointment. |
| Student Services Mgr : | Eszter Fuchs (Fuchse@business.ceu.edu) |

1. PRE-REQUISITIES

Completion of core course in Accounting.

2. REQUIRED TEXT AND READINGS

Jonathan Berk & Peter DeMarzo, *Corporate Finance – The Core, Global Third Edition* (2014), Pearson Addison-Wesley. ISBN 9780273792277 (earlier editions are fine).
(An e-learning pack comprising of selected chapters will be uploaded onto Moodle.)

<http://catalogue.pearsoned.co.uk/educator/product/Corporate-Finance-The-Core-plus-MyFinanceLab-with-Pearson-eText-Global-Edition/9780273792277.page>

Video recording of Class lectures available at:

<http://ceu.homburginstitute.com/login/index.php>

All students registered for the course will be provided access to the e-learning platform.

Note that each student has his/her own individual access with usernames and password provided by the Academic Office.

Supplementary books include (in order of preference):

E. Brigham, M.Ehrhardt & R. Fox, *Financial Management – Theory & Practice – 1st edition*, Europe, Middle East and Africa Edition (2015), Cengage Learning.

R. Brealey, S. Myers & A. Marcus, *Fundamentals of Corporate Finance*, McGraw-Hill.

Refer to the latest edition.

Ross, Westerfield, Jaffe & Jordan, *Modern Financial Management*, McGraw-Hill International Edition. Refer to the latest edition.

The above are classic textbooks that everyone serious about establishing a good foundation in finance should own. It does an excellent job explaining basic concepts and established theories.

Other readings and notes may be distributed in class. All Powerpoint slides are the property of the instructor, and may be used for class review purposes only. The slides may not be copied, modified, or used in any other way, except for class review.

4. COURSE DESCRIPTION AND OBJECTIVES

The aim of the course is to provide students with a broad based understanding of the principles and techniques of Corporate Finance and applying them to the main decisions faced by the manager. The concepts are immediately applicable to all firms, both large and small, privately run or publicly traded and involved in any industry – whether manufacturing, merchandising or services.

The course is divided into 4 main sections, beginning with the concept of valuation where topics on time value of money and the valuation of income streams, share and bond valuations will be discussed. In section II, we will build upon these concepts in the discussion of investment appraisal techniques: Net Present Value, Internal Rate of Return, Payback Period, Profitability index. These techniques will be applied to the evaluation of various investment and project proposals. Section III will cover an important pillar of finance: the risk and return tradeoff faced in finance, where concepts such as portfolio diversification, beta and the capital asset pricing model, cost of capital will be discussed. In the final section, we will explore how financial managers select a financing mix (via risk-return tradeoffs and dividends vis-à-vis retained earnings) that minimizes the cost of capital and matches the assets being financed to achieve the ultimate aim of maximizing the value of the firm.

5. MAIN TOPICS

- Taking the mystery out of finance – Functions and Goals of corporate finance
- Time value of money calculations – perpetuities, annuities, impact of inflation
- Types of bonds and bond valuation
- Stocks, stockmarkets and techniques of stock valuation
- Project evaluation techniques – NPV, IRR, Payback and Profitability Index and Capital Rationing, and their application to different investment decisions
- Risk and return, Beta and Capital Asset Pricing Model, including how risk can best be measured and how risk affects financing and investment choices.
- Corporate financing choices and capital structure

6. INTENDED LEARNING OUTCOMES

| <i>Core Learning Area</i> | <i>Learning Outcome (or Educational Objective)</i> | <i>Methods used for assessing learning</i> |
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| <i>Interpersonal Communication Skills</i> | Participate in class discussions and problem solving exercises. They will be able to present their arguments or findings, persuade fellow students of the usefulness of their own conclusions and objectively critique findings presented by their fellow students | Participation in class discussions and problem solving class will be assessed and graded. |
| <i>Technology Skills</i> | Demonstrate an ability to use MS Excel tools in problem solving | Class problems and homework assignments will require the use of Excel spreadsheets. |
| <i>Cultural Sensitivity and</i> | Work harmoniously with students of various nationalities. They will be capable of harnessing | Utilise classroom diversity for projects and discussion requiring |

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| <i>Diversity</i> | the diversity advantage in viewing issues and problems with a different, if not, international, perspective. | teamwork |
| <i>Quantitative Reasoning</i> | Apply financial models and formulae to evaluate alternative investment decisions. | Class problems and homework assignments will require the use of extensive quantitative reasoning. |
| <i>Critical Thinking</i> | Exercise powers of inquiry, logical thinking, and critical analysis of arguments and evidence. Interpret and evaluate theoretical arguments and empirical evidence | Lectures and seminars will highlight many real world business issues and examples that would demand analytical thinking and problem solving skills. |
| <i>Ethics and Social Responsibility</i> | Evaluate and discuss the challenges of issues relating to social responsibility, corporate governance and ethical and professional behavior arising from the recent financial scandals. | Lectures and seminars will emphasize the importance of ethics and social responsibility. |
| <i>Management Knowledge and Skills</i> | Provide a comprehensive understanding of the principles and techniques of corporate finance. Students are exposed to a number of economic and accounting concepts that practitioners in the field use and apply. | Lectures and seminars will involve real world data and scenarios, focusing on how financial managers make investment and financial decisions in a complex interplay of business dynamics. |

7. HOW THE CLASS SESSIONS WILL BE CONDUCTED

There is an e-learning component in this course. Students are required to watch the e-video lectures on their own time, and to complete the e-quizzes. **There are 10 hours of video lecture presentations on key topics in finance**, and each hourly video is divided into short segments, of about 15 minutes each. Students can watch as many, or as few segments each day, or each week, in their own time. (The system recognizes where the student left off in the course, and automatically resumes at that point (however, they can go back to any point at any time). Each segment is followed by a short quiz (with no time constraint) to help them review, and test themselves about what they have learned. Students will need to complete 150 questions, comprising 30% of grades for the course. Students are allowed only one attempt at the quizzes but they could watch the videos repeatedly or review the quizzes after submission.

Students should keep their passwords secure, since the grades recorded for their quizzes are uniquely attached to their passwords (and mapped to their account and login information). At the end of the course, the quiz grades will be tabulated and released to the instructor.

The class meets only for seminar sessions where students are required to work on the problems before class and we will review/discuss the solutions in class. Regular on-time attendance is required at all seminar sessions. **Students are required to bring a calculator to every seminar session.** Calculators are required in the exams (mobile phones/mobile gadgets cannot be used in the exam).

8. POLICY ON THE AVAILABILITY OF LECTURE NOTES

Lecture notes and seminar questions are made available on Moodle.

9. MINUTE PAPERS

There are no minute papers in this course.

10. POLICIES ON CLASS ATTENDANCE AND PARTICIPATION

Regular and punctual attendance at every class session is a requirement of all degree programs at CEU Business School. Each class covers material not found in the readings.

Furthermore, participation in class discussions is an important part of the learning experience for all students as well as a factor in grading. If illness or another unusual circumstance requires missing a class, please do your best to inform me (or, if I cannot be reached, the Program Coordinator) in advance. A grade of “AF” (Administrative Fail) may be assigned for failure to regularly attend a course, to drop the course in time, or to complete requirements on time. **Missing more than 2 classes will result in an AF grade.** This is a general CEU regulation that the Business School also follows. The “AF” grade earns no credit, 0 points, and affects your GPA in the same way as a regular “F” grade.

It is important that students come to class prepared and actively participate in the discussions. **Frequency and quality of students’ contribution** (beyond the minimum level of regular attendance) **will comprise 15% of the grade.** Evaluating the frequency and quality of a student’s contribution to class relative to other students is the instructor’s discretion.

11. CLASS PARTICIPATION

Surfing the internet is not allowed when the class is in session. Studies have shown that most people cannot learn effectively when they are distracted. Multi-tasking might work for menial tasks but it is ineffective when you are required to think and contribute.

Class participation (c.p) means contributing to the learning of your fellow students and maintaining a respectful learning environment. Asking and answering questions in class, and participating in class discussions and volunteering to solve problems in class are excellent methods of class participation.

Almost all participation noted by the instructor will increase the student’s c.p. grade, but negative c.p. includes disrupting class (e.g. by coming in late), not paying attention during a student presentation, other forms of rudeness toward your fellow students, and a lack of cooperation with methods to ensure that no cheating occurs during minute papers and exams. Grading c.p. is necessarily subjective and no subdivision of the grade will be available to students.

All students should make an effort to read the required material before class as this would enable you to make the most out of the lecture. All students are responsible for the material covered in class, as well as the material in the handouts and required readings for each class, regardless of whether they were able to attend the class.

Laptops and mobile devices should not be used whilst the class is in session.

12. GRADING

The assessment for the course comprises of the following:

20% class attendance, seminar preparation, problem-solving and class participation
30% online e-quiz (note that there are 3 deadlines for submission)
50% Final exam

The grade obtained for the course is marked against the standards of the CEU and as such, is final and non-negotiable. **No emails/conversations on trying to better your score will be entertained after the exam.**

There is an **e-learning module** in this course. Students will be provided individual access to online videos and e-quizzes. Students are required to complete the e-quizzes at their own time and pace, bearing in mind the 3 deadlines (see section 15).

There are home assignments (seminars) for each lecture and students are required to complete the seminars outside of class for discussion in the following class. Class discussion/participation is a component of your grades, and it is a bonus that could improve your overall scores for the course. **Students who have completed their home assignments tend to do well in the course. Moreover, completing your homework will allow you to contribute to class and participate in discussions.** You will be called upon to participate or contribute to classwork discussions if your participation score has been inadequate (or non-existent).

13. ACADEMIC INTEGRITY

The Business School expects all students to adhere to the fundamental principles of academic integrity in any and all behaviors associated with their course work and otherwise, as stated in the CEU Honor Code (see Student Handbook). Attempted cheating of all forms is treated extremely seriously and can result in dismissal from the School and University.

14. INTERNET LIBRARY RESOURCES

The CEU Library, at Nador St. 9, has the largest collection of English-language materials in the social sciences and humanities in Central Europe: 180,000 monographs and 30,000 volumes of periodicals, working papers, dissertations and so on. CEU faculty and students have access to 30,000 electronic journals, searchable via the Journal Search tool on the library catalogue page (<http://goya.ceu.hu/>; the icon is in the upper right corner).

CEU Business School core faculty, students and staff are automatically eligible for full membership in the Library, after registering at the Circulation Desk. (To use the Library, adjunct faculty should first obtain a pass at the B School Academic Office Rm 311.)

The CEU Library has 5,000 business-related titles, supplemented by leading electronic databases, accessible through <http://www.library.ceu.hu/databases.html> (Click on the icons and then click on the tag next to “connect to”.) The Ebsco Host Business Source Complete contains 3,700 periodicals in full text, many monographs, some case studies, and videos of the Harvard Faculty Seminar Series. *Emerald Management Journals* collection has a portfolio of 175 journals in management, marketing, econ and finance.

New business databases include *OneSource*, the most comprehensive company & executive information. *Global Market Information Database* has comprehensive data and reports across industries, countries and type of consumers. *Thomson One Banker* provides data on internationally quoted companies, international stock exchange indices, private equity, and financial deals. *Science Direct* is an extensive full-text database covering authoritative titles from the core scientific literature. *The Company Dossier* in Lexis Nexis Academic allows users to browse in-depth company profiles and industry reports. Core statistical databases include IFS, GFS Online, OECD Main Economic Indicators, National Accounts Statistics, and Tax Statistics. *Econlit* at the CSA/Proquest platform provides bibliographic coverage of a wide range of economics-related literature.

Business dailies and weeklies can be accessed through the library. **Business Eastern Europe** by EIU is a weekly briefing on operating a business in Eastern Europe. **Country Reports** also by EIU provide in-depth economic, political and business analysis and short-term market outlooks. Electronic versions of *The WSJ* are in PressDisplay. *The Economist* is included by EbscoHost. For *The Fin. Times online*, see Journal Search.

News on economic and social developments in the Caucasus and Central Asia can be downloaded directly (not via the CEU Library): <http://www.icegec.hu/eng/index.htm>.

Help with Case Studies and Research Projects

Available on CEU Library reserve is a reference work that students preparing case-study assignments or undertaking individual or team research projects should find helpful, *Business Case Studies: Preparation, Teaching and Learning* (compiled, with contributions, by Susan Harmeling, Lead Case Writer, Harvard Business School, and Paul Marer, Professor, CEU Business School). This work, whose reference code is CM-GSB, can be found on the shelf

marked Business School Readers, right behind the Circulation Desk, at the CEU Library on Nador utca.

The VPN access makes it easy to reach from outside of the CEU network the full version of UIS and all CEU Library databases and journals. (Visit <https://vpn.ceu.hu>, accept the security-certificate, and enter: **User name:** ceubs **Password:** Ceubusi987. The password is case sensitive, and to enter it, only the virtual keyboard appearing on the screen can be used. Once logged in, the "built in" browser can be used to access the respective sites: UIS: <https://infosys.ceu.hu>.

15. COURSE OUTLINE AND SESSION ASSIGNMENTS

Lecture 1: Introduction to Corporate Finance: Taking the mystery out of Corporate Finance

- The Corporate firm and Goals of the firm
- Securities as claims on the firm
- Financial markets

Berk Chpt 1

Lecture 2: Time Value of Money

- Present and Future values, Power of compounding
- Multiple cash flows, Ordinary Perpetuities, Annuities
- Loan payment and retirement calculations

Berk Chpt 4

Lecture 3: Financial Statement Analysis

- Ratio calculations and analysis

Lecture 4: Bond Valuation

- Bond prices and interest rates
- Yield to Maturity vs Current yields
- Bond variations and risk

Berk Chpt 6

Lecture 5: Stock Valuation

- Dividend Discount Model
- Price-earnings ratio

Berk Chpt 9

Lecture 6: Capital Budgeting Techniques

- Net Present Value, Internal Rate of Return, Payback Period, Profitability Index
- Why NPV leads to better investment decisions than other criteria

Berk Chpt 7 & 8

Lecture 7: Capital Budgeting Applications

- Determination of relevant cash flows for project evaluation

Berk Chpt 7 & 8

Lecture 8&9: Risk and Return

- Risk free rates and risk premiums
- Efficient Portfolios and Diversification
- Betas and Capital Asset Pricing Model, Weighted average cost of capital

Berk Chpt 11 & 12

Lecture 10: Corporate Financing Decisions

- Real world considerations in capital structure
- Debt trade offs and value of firm

Berk Chpt 15 & 16

Class 1 & 2 (April 11 & 19): ONLINE CLASS

Watch e-video Lecture 1, 2 & 3

Complete Seminar 1 & 2

Deadline 1 (April 19): e-quizzes 1 to 3

Class 3 & 4 (April 22):

Class time: Discussion of Seminars 1 & 2, Instructor's Delivery of Lecture 4

Class 5 & 6 (April 23):

Class time: Instructor's Delivery of Lecture 5, Completion of Seminar 4 & 5

Class 7 & 8 (April 26 & May 3): ONLINE CLASS

Watch e-video Lecture 6 & 7

Complete Seminar 6 & 7

Deadline 2 (May 3): e-quizzes 4 to 7

Class 9 & 10 (May 6):

Class time: Discussion of Seminar 6 & 7, Instructor's Delivery of Lecture 9 & 10

Class 11 & 12 (May 7):

Class time: Final exam

Deadline 3 (May 7): e-quizzes 8 to 10

Note: The course outline is subject to changes either before or during class at the discretion of the instructor.

16. BRIEF BIO OF THE INSTRUCTOR

Joy Chan delivers various EMBA Finance core courses and electives (Company Valuation, Advanced Corporate Finance, Project Analysis, Mergers and Acquisitions, Personal Finance) at the CEU Business School where she serves as an adjunct faculty member since 2005. Joy is currently a visiting Finance professor in many European and American universities and has been invited by corporations and banks to deliver executive education training programs. Joy bridges academic studies with relevant and insightful illustrations gleaned from her industry experiences in senior governmental positions in the Inland Revenue Singapore, International Enterprise Singapore and Ministry of Trade & Industry, Singapore and Regional Controller, KPMG Central & Eastern Europe. Joy has continuously been rated excellent in teaching methodology by students and peers, including independent assessors for ISO 9000 teaching quality certifications.